

Azerbaijan Economic Research Center



**RECCOMENDATIONS ON
AZERBAIJAN'S WTO ACCESSION**

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Because Azerbaijan has a small domestic market and needs to have access to the world market and handles problems and barriers in order to integrate world economic system, WTO membership is very important for the country. According to the accession conception adopted by the Commission of the **Republic of Azerbaijan the stand point of the Government of Azerbaijan during the negotiations must be based on the following principles:**

1. To acquire the privileges given to the relevant countries taking into account of Azerbaijan's developing and transition economy in the framework of WTO;
2. To achieve maximum long term transition period until complete application of all WTO rules;
3. To achieve high import customs duties for the goods of a vital importance for Azerbaijan's economy particularly for the industry;
4. If reduction of duties is inevitable, try to succeed in the reduction of the average duties for the goods of less importance but at the same time to increase tariff for other goods, aiming to keep the average level of duties at the equal level;
5. To succeed in specific and differential regime to be granted to Azerbaijan as other developing country during the negotiations on the service market. In case of existence of having local specialists in different fields to prevent from liberalization for foreigners to be employed;
6. To succeed in granting subsidies during the negotiations in the agricultural field the in the amount of 10 percent of the annual agricultural products;
7. To study carefully the proposals of the developing countries of not acceding to the agreements which are beyond the WTO requirements and to assume these obligations only after the accession.

Meanwhile, Azerbaijan will get some benefits and as well as detriments from joining to the WTO. In order to reduce negative impacts and enhance positive affects Economic Research Center has prepared policy recommendation for the government by using its own researches and discussions with various groups including

government bodies, think tank members, independent researchers, and business people.

1. Activity Plan on Azerbaijan's Accession to the WTO is recommended to be prepared. Recommendation are on following directions

- Excluding of import taxes and value added tax from exported technology with production purposes;
- Applying of special import tariffs regime for imported oil and gas technology with production purposes which are in the list of Azerbaijan Republic Ministry of Energy;
- Decreasing of import tariff rates applied in exported raw materials for using in all industry sectors, particularly machine building, light and food sectors;
- Establishing of Anti-dumping Control State Committee and giving its empower to carry out independent anti-dumping policy;
- Preparing of Activities Plan on ecological standards in enterprises in order to support entrepreneurship development in international trade system;
- Increasing national ownership through better integration of external aid into macroeconomic and sector programs;
- Formalizing of information bank and information system on foreign trade (mechanisms of solving disputes and monitoring of price fluctuation and etc.);

2. **In agriculture sector:**

Listing of agriculture -industry sectors which are unable to react quickly to challenges in the world market;

- Protection of certain agriculture production sectors which have no capacity to compete with imported goods;
- Formalization of Foods Control System in order to enhance accesses of population under poverty to foods

3. **Foreign Direct Investment (FDI)**

- Strengthening the enabling environment for private sector development and foreign investment flows.
- Accepting of special regimes and exceptions by using other countries' cases (China, Kyrgyzstan and others)
- Policies and strategies for the promotion and attraction of Foreign Direct Investment (FDI) should be part of and integrated into general economic development and economic reform policies; they should not be seen in isolation as a general panacea for economic ills.
- Extending of transition period allows applying of national control regimes;
- Preparing and approving of documents to limit manipulation chances of foreign investor's activities on "tax applied income", "export price" and etc;
- It is generally known that the more developed a country is, the better able it is to attract quality FDI. In particular, countries need to strengthen unique national competitive advantages, which would be of particular interest to foreign investors, including brand name recognition. Countries which lack such advantages, like Azerbaijan, need to develop them. In this context, Azerbaijan should encourage private sector development and private sector R & D, while broadening the opportunities for legitimate entrepreneurial activity.
- Policies and strategies for the promotion and attraction of FDI should clearly delineate areas in which FDI is desired; FDI should not be attracted indiscriminately but should be geared to the country's needs and requirements while taking investor concerns into full account.
- Successful attraction of FDI should be followed up by successful implementation of investment projects. For this purpose, the Azeri government entities and officials need to ensure that post-approval implementation of both foreign and domestic investment projects in their provinces/municipalities proceeds smoothly and that local investment regulations and procedures are consistent with central government policies, laws and regulations. In this context, proper consultation and coordination mechanisms between central and

provincial/municipal government need to be strengthened to facilitate and ensure effective investment realization;

- Lessons from the experiences of China and Korea in FDI promotion and implementation, as well as other countries in the world should be taken into consideration. However, Azerbaijan should not strive for full replication of the policies of successful countries but only select those aspects that would fit their particular needs and requirements. For instance, the costs and benefits of special economic zones or export processing zones need to be carefully evaluated by individual countries before establishing such zones;
- Policies and strategies for the promotion and attraction of FDI should be implemented in conjunction with effective privatization and overall private sector development policies and measures, with emphasis on the development of SMEs, including attraction of FDI from SMEs. Backward and forward linkages between companies should be forged as well as between SMEs and foreign companies. The development of downstream value-added industries, possibly with participation of FDI, should be actively encouraged;
- The Azeri government should create and maintain comprehensive information databases on investment opportunities, including specific priority investment projects. Preferably, such databases should be accessible through the Internet. Investment promotion agencies should develop active and updated websites providing detailed information on the investment climate in Azerbaijan, including costs of doing business, and investment application, approval and implementation procedures.
- Continue reforms to attract FDI as well as improve investment environment.

4. Social Sphere

- Realizing of regional programs which address certain groups and have real purposes in order to reduce poverty and fight with unemployment;
- Enhancing of access to services and material wealth has social importance;

- Developing of protection of domestic labor market; minimizing of foreign labor force movement to the country based on annual quotas approved by the Azeri government; conducting of trainings for local specialist in order to replace foreign ones;
- Developing of trainings and re-specialization of local labor force by considering domestic labor market demands;
- Monitoring of labor market guaranteed quick reaction to employment policy in the domestic labor market;
- Increasing effectiveness of financial supports to population under poverty level;
- Formalizing of mechanisms for indexing of incomes population under poverty level in case of inflation;
- Establishing social protection system including minimal state protection, obligatory insurance system and non-obligatory insurance system;
- Ratification of International Labor Organization conventions on protection of employment;
- Enhancing of activities to protect rights consumers of export goods.

5. Protection of Intellectual Property Rights (IPR)

- Updating IPR legislation and give attention to strengthening the ability of the judicial system to enforce existing legislation and ensure adequate levels of IPR protection.
- Encouraging the private sector to be more engaged in the process of demonstrating the benefits of IPR protection through seminars and workshops
- Strengthening a monitoring system should be set up to ensure full implementation of intellectual property obligations.

6. Minimization of disadvantages of Azerbaijan's Accession to the WTO in negotiation process

- Achieving of increasing of number of measures within “Yellow Box”;
- Achieving of commitment allows subsidizing to agriculture sector 10 per cent of annual agriculture products;
- Achieving of “Special and Differential Protection Measures” Right in order to have guarantee keeping subsidy limit.

Beside to these recommendations, special recommendations can be taken into consideration. Because these recommendations cover all sectors of economy, they called as “special recommendations”. They are expected to affect to improve of economic system and make it more flexible and transparent.

Special recommendations can be characterized as following;

1. Establishing of democratic, transparency and effective system of state management.
2. Fostering transparent and well-functioning Governmental systems accountable to the people, and promoting an accessible and independent judiciary.
3. Improving of property protection system, judicial reforms, economic legislation base, especial Codes on Custom and Tax.
4. Strengthening national strategies and capacity as to promote sustained economic growth and development
5. Improving of the efficiency and equity of tax collection systems and enhance the transparency of public expenditures.
6. Conducting fore-cast analyses to determine quantitative results of trade globalization by Azerbaijan Republic Ministry for Economic Development,

Ministry of Agriculture, Ministry for Natural Resources and Ecology, Ministry for Labor and Social Protection of Population, State Custom Committee.

7. Developing of efficient and appropriate financial legal and regulatory systems.
8. Preparing specialist on sphere of WTO and international trade by Azerbaijan Republic Ministry of Education.
9. Holding of regional and sector round-table discussions by Azerbaijan Republic Ministry for Economic Development in order to enhance public disclosure of information related WTO negotiations.
10. Intensifying of public discussions of commitments of WTO with business people, representatives of civil society and scientific-research institutions and representatives of Mass-Media.
11. Involving of representatives of National Sciences Academy, Economic Research Center, Confederation of Entrepreneurship, Association of Banks and others.
12. Promotion of market access for goods and services under conditions of fair competition through strengthened international rules and disciplines.